

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: April 12, 2007

Bill Number: S.B. 656

Authors: Leatherman; Moore; Leventis; McGill, *et. al.*

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend Section 12-36-910, as amended, of the Code of Laws of South Carolina, 1976, relating to the imposition of the state sales and use tax and the special three percent sales and use tax imposed on unprepared food, so as to reduce this special rate on unprepared food from three percent to two percent effective January 1, 2008, to delete an obsolete provision, and to reduce this two percent rate in increments of one-half of one percentage point if the February fifteenth forecast of annual general fund growth for the upcoming fiscal year equals at least five percent of the most recent estimate of general fund revenue for the current fiscal year; and to amend Section 12-36-2120, as amended, relating to sales tax exemptions, so as to provide a permanent exemption for unprepared food which lawfully may be purchased with United States Department of Agriculture food coupons beginning the July first that the phase-down of the state sales tax rate on unprepared food attains zero.

REVENUE IMPACT ^{1/}

This bill would reduce sales and use tax revenue by an estimated \$40,000,000 in FY2007-08. This bill would reduce General Fund sales and use tax revenue by an estimated \$32,000,000 and would reduce EIA revenue by an estimated \$8,000,000 in FY2007-08.

Explanation

This bill would amend Section 12-36-910(D) to reduce the sales and use tax on the sale of unprepared food which is purchased with United States Department of Agriculture food coupons to two percent beginning January 1, 2008. Based upon the Department of Revenue's survey of food sales tax remitters, each one percentage point reduction in the sales tax on food purchased at grocery stores for home consumption from the current three percentage point sales tax rate would reduce state sales tax revenue by an estimated \$80,000,000 in FY2007-08. Because the effective date of the sales tax rate reduction is not until January 1, 2008, state sales tax revenue would be reduced by one-half of a full fiscal year's amount, or an estimated \$40,000,000 in FY2007-08. Beginning with the February 15, 2008 forecast by the BEA, if the growth rate in General Fund revenue for the upcoming fiscal year is at least five percent compared to the current fiscal year's estimate, then the sales and use tax rate on food purchased at grocery stores may be reduced by one-half of one percentage point beginning the following July 1. The BEA would notify the Department of Revenue in writing that this requirement has been met. That rate would remain in effect until another formal review of General Fund growth rates is undertaken by the following February 15th forecast. This process would continue in one-half of one percentage point increments until the sales and use tax on food purchased at grocery stores is wholly eliminated. This bill also removes language pertaining to an EIA hold harmless clause that would replace revenue in the EIA for any revenue reduction caused by sales tax rate reduction on food.

/s/ WILLIAM C. GILLESPIE, PH.D.

William C. Gillespie, Ph.D.
Chief Economist

Analyst: Martin

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.